

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Update on State Legislation

ITEM NUMBER: 6a

ATTACHMENT(S): 4

ACTION: X

MEETING DATE: March 7, 2002

INFORMATION:

PRESENTER: Ed Derman

I. UPDATE ON THE GOVERNOR'S BUDGET PROPOSAL

In mid-February, the Governor notified the Legislature that he was withdrawing his proposal to defer General Fund contributions to the Defined Benefit (DB) Program for the next 27 months, in return for increased contributions in future years and a benefit enhancement funded from increased General Fund contributions. (A similar proposal concerning the California Public Employees' Retirement System also was withdrawn.) The Governor indicated when he initially made this proposal that if the state was able to restructure its bonded indebtedness in order to reduce its budget year costs, the retirement system proposal might be withdrawn. Further review of the debt-restructuring proposal indicated that it was viable, and the Department of Finance determined that the costs of restructuring the debt would be less than the retirement system proposals. Even if the state's fiscal circumstances should change again, and a similar proposal concerning DB program contributions is made later in the Spring, the Governor's action effectively eliminates any possibility that the quarterly contribution by the General Fund to the DB Program on April 1, 2002 will not take place.

II. BOARD POLICY ON LEGISLATION

The Teachers' Retirement Board (Board) establishes the California State Teachers' Retirement System's (CalSTRS) policy on legislation, and has final responsibility and authority for deciding which CalSTRS legislative proposals will be presented to the Legislature for introduction. For proposed legislation, the Board has responsibility and authority to adopt a position on each bill and to communicate that position to the Legislature and the Governor.

The Board revised its formal policy on legislation at the November 1996 board meeting. Since that time, the Board also modified its legislative policy on in June 1999 and again in April 2000 with respect to benefit enhancement legislation. The current Board policy on legislation reflects the Board's policy to support, oppose or be neutral on legislation affecting CalSTRS. It specifies that expanded benefits and services may be funded from available surplus assets of the System including normal cost surpluses. Since the last modification to Board policy on legislation, there have been many changes in the availability of assets to fund new benefits enhancements and changes in the level of General Fund contributions to the System.

At the last Board meeting, the Board authorized the staff to present identical Board positions on legislation that conforms the state tax law to changes made last year in federal legislation, based on an understanding that the Board's current policy provided such authorization. Staff has reviewed the Board's current policy on legislation and determined that no such authorization currently exists. The staff also determined that the policy needed updating to reflect issues that have arisen in recent CalSTRS legislation. Consistent with previous legislative policy changes, staff has endeavored to develop a policy statement that supports CalSTRS' current structure and environment, but also broad enough in scope to apply to future developments in benefits, services and plan administration. The major changes:

- Authorize staff to represent as the Board's position on legislation that is substantively identical to other legislation being considered in the same legislative session and for which the Board has already adopted a position. Adoption of this policy would result in the Board effectively adopting a Support position on the tax conformity legislation that is substantively identical to SB 657 (Scott), for which the Board has already adopted a Support position.
- Identify alternative sources of funding that could be used to fund new benefits and services

Below is the proposed revised policy. To facilitate comparison of the proposed policy to the current policy, proposed new text is bolded.

TEACHERS' RETIREMENT BOARD POLICY ON LEGISLATION

The Teachers' Retirement Board (Board) directs staff to make reasonable efforts to achieve passage of pending state and federal legislation or regulations sponsored or supported by the Board, to negotiate amendments to pending legislation or regulations as appropriate and necessary, and to defeat legislation or regulations opposed by the Board. **The Board also authorizes staff to represent as the Board's position on legislation the same position the Board had previously on substantively identical legislation during the current legislative session. Positions of support, neutral, no position or oppose are based on the following guidelines**

- I. Sponsor or support legislation or regulations which:
 - A. Are consistent with the objectives of providing financially sound primary and supplemental retirement plans for California's educators.
 - B. Expand or improve in a prudent manner the benefits and services provided through the funds administered by the California State Teachers' Retirement System (CalSTRS) as appropriate for public retirement systems. Expanded benefits and services may be funded from available surplus assets of CalSTRS, including normal cost surpluses, **or through additional contributions to the System.**
 - C. Improve the delivery of benefits and services and provide more effective and efficient administration of the retirement plan.

- D. Are consistent with the investment policy adopted by the Board as presented in the CalSTRS Statement of Investment Responsibility.
- E. Preserve the assets and minimize the liabilities of the funds administered by CalSTRS.
- F. Reduces inequities or deficiencies in plan design.
- G. Gives more flexibility to the Board in its administration.

II. Adopt a neutral position or no position on legislation or regulations which:

- A. Do not significantly or adversely impact the benefits or services provided through the funds administered by CalSTRS or the administration of the retirement plans.
- B. Affect the composition of the Board or the process by which individuals are appointed to serve as members of the Board.

III. Oppose legislation or regulations which:

- A. Adversely affect the actuarial balance of the funds administered by the System, or result in adverse selection against a retirement plan.
- B. Expand or improve the benefits or services provided through the funds administered by CalSTRS without adequate funding or provide benefits or services that are not appropriate for public retirement plans.
- C. Deprive members or participants of vested benefits and do not provide equivalent, compensating benefits.
- D. Is special interest legislation to benefit only one individual or a small group of individuals within a larger group unless the Board determines an inequity exists which the legislation or regulation would correct.
- E. Restrict or infringe on the plenary authority of the Board to administer the retirement plans as provided in Section 17 or Article XVI of the California State Constitution.
- F. Restrict the investment authority of the Board or are inconsistent with the investment policy adopted by the Board as presented in the CalSTRS Statement of Investment Responsibility.

- G. Appropriate amounts from the funds administered by CalSTRS for purposes that are not solely in the best interest of the members, participants, or beneficiaries of the retirement plans.
- H. Endanger the Trust or the tax-exempt status of retirement plans administered by CalSTRS and the deferred treatment of income tax on employer contributions to the plans and related earnings.
- I. Is inconsistent with provisions of Section 403(b) of the Internal Revenue Code of 1986 and the Revenue and Taxation Code that are applicable to the System's annuity contract and custodial account.
- J. Conflict with the System's strategic directions established by the Board.

III. SUMMARY OF LEGISLATION

Staff also has prepared the attached analyses and recommended positions on the following measure for the Board's consideration.

<u>Attachment</u>	<u>Bill Number</u>	<u>Author</u>	<u>Subject</u>
1	AB 1744	Corbett	Conformity with federal rollover changes and 2002 retiree service credit purchases
2	SB 1315	Sher	Centralized Purchasing of Prescription Drugs
3	SB 1318	Karnette	Employer Payment of Member Contributions
4	Legislative Summary		

Mr. Derman will provide a verbal update at the meeting.

Assembly Bill 1744

Assembly Member Corbett (As amended 1/31/02)

Position:

Support if Amended (Staff recommendation)

Proponents:

CA State Association of Counties, League of CA Cities, CA Independent Public Employees Legislative Council, CA Society of Enrolled Agents, City of Santa Clara, Association for LA Deputy Sheriffs, LA County Probation Union - AFSCME, LA County Sanitation Districts, LA Police Protective League, Orange County Board of Supervisors, Orange County ERS, Riverside Sheriff's Association, San Francisco City & County ERS, SACRS

Opponents:

None known

SUMMARY

Assembly Bill 1744 conforms state tax law to provisions of the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) concerning rollovers among various types of retirement plans and the purchase of service credit. It also allows members of government defined benefit plans who retired in 2002, but prior to the enactment of state tax conformity, to purchase service credit using rollover funds allowed under EGTRRA. This bill would take effect immediately as an urgency statute.

HISTORY

SB 657 (Scott) among other things, conforms California law to the retirement plan provisions of EGTRRA.

SB 1256 (Brulte) among other things, conforms California law to the retirement plan provisions of EGTRRA.

AB 1122 (Corbett) among other things, conforms California law to the retirement plan provisions of EGTRRA.

AB 1743 (Campbell) among other things, conforms California law to the retirement plan provisions of EGTRRA.

Chapter 803, Statutes of 2001, (SB 501—Senate PE&R), among other things, authorizes the Teachers' Retirement Board (Board) to establish terms and conditions that permit members of the California State Teachers' Retirement System (CalSTRS) to roll over funds from other traditional defined benefit/defined contribution retirement plans, Section 403(b) plans and Section 457 plans, and any IRAs, either to purchase permissive service credit or to redeposit previously withdrawn contributions to the Defined Benefit (DB) Program.

P.L. 107-16, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), enacted a number of changes to federal law to enhance the portability of funds among different types of retirement plans, including 401(k), 403(b) and 457 plans, IRAs and 401(a) retirement plans. In addition, it increases the contribution limits to 403(b), 457 and 401(a) plans, and increases the annual allowance limit for defined benefit plans.

CURRENT PRACTICE

The State Teachers' Retirement Plan (Plan) is administered by CalSTRS in accordance with Section 401(a) of the Internal Revenue Code (IRC). The Plan consists of the DB Program, the Defined Benefit Supplement Program and the Cash Balance (CB) Benefit Program. In addition, CalSTRS offers school employees a 403(b) deferred compensation retirement savings plan called the Voluntary Investment Program (VIP). The CalSTRS VIP is similar to 401(k) plans available to workers in private industry.

Changes to federal tax law under EGTRRA that became effective January 1, 2002 have a profound effect on administration of Plan assets and the retirement planning options available to CalSTRS members. However, differences between the federal IRC and the California Revenue and Taxation Code currently exist because current state law is based upon the former provisions of the IRC as it was in effect on January 1, 1998. California is among several states that have not changed tax laws to correspond with the more liberal federal law.

CalSTRS is required by the Education Code to administer the Plan in accordance with applicable provisions of the Internal Revenue Code and the state's Revenue and Taxation Code. Due to the conflict between state and federal pension laws, CalSTRS cannot permit its members to take advantage of the pension portability provisions and increased limits contained in EGTRRA. In addition, to do so would potentially jeopardize the tax-qualified status of the Plan.

One difference between current state and federal tax law that is having a significant impact on some CalSTRS members concerns the purchase of service credit. CalSTRS allows members of the DB Program to purchase additional service credit or repay previously refunded contributions, with the purchase fully paid prior to retirement. Under EGTRRA, direct trustee to trustee rollovers are allowed from 403(b), 401(k), 457 or IRAs to 401(a) defined benefit plans to purchase service credit for prior service. However, under state tax law, consistent with prior federal law, use of 403(b) and 457 funds to purchase service credit is not permitted and is treated as a taxable early distribution, subjecting members to a 2½ percent early distribution penalty assessed by the State.

Chapter 803, Statutes of 2001, effective January 1, 2002, made changes in the Education Code to allow CalSTRS to improve portability of retirement funds by deleting the former prohibition in using 403(b) funds to purchase service credit in the DB Program for out-of-state service. The bill also codifies the Board's existing authority in federal law to accept direct transfers of retirement funds from trustees of other retirement funds. The Board took action at its December 2001 meeting to begin implementation of the rollover provisions of EGTRRA in anticipation of state conformity, CalSTRS, however will not accept rollovers from 403(b) and 457 plans and non-

conduit IRAs until state conformity is achieved. If CalSTRS were to accept rollovers using 403(b) or 457 funds not authorized under the state tax code, members would face potential penalties of 2½ percent plus capital gains and personal income tax on the amount of the distribution that is allowable under federal law but not California law. In addition, the Plan would face potential disqualification, subjecting the Plan and its members to additional income tax liability.

There are currently over 100 requests pending to transfer 403(b) funds to the DB Program for purposes of redepositing previously refunded contributions and purchasing additional service credit. CalSTRS is receiving about 10 additional requests per week to rollover 403(b) funds into the Plan.

DISCUSSION

If the state does not conform to the changes in federal tax law made last year, CalSTRS members will be unable to take advantage of the EGTRRA provisions and will have significant long-term consequences on their retirement savings and the ability of the System to continue to provide benefits that members are otherwise able to receive.

AB 1744 conforms state tax law to new federal tax laws that allow rollovers among governmental 457 plans and 403(b) plans and other qualified plans and rollovers of IRAs to workplace retirement plans, allows rollovers of after-tax retirement plan contributions. In addition, AB 1744 allows public retirement system members who retire between 1/1/02 and 120 days after the bill's effective date to purchase service credit using rollover funds allowed under EGTRRA if their purchase is completed by 1/1/03.

Unlike other state tax conformity bills being considered by the Legislature, AB 1744 addresses rollover and service credit purchase issues exclusively, and does not make additional changes to state law concerning increased contributions to 401(k), 403(b) and 457 plans, and IRAs. As an urgency measure, AB 1744 becomes effective immediately after the Governor's approval. In addition, the tax conformity provisions of AB 1744 are retroactive to January 1, 2002, to conform to the effective date of the retirement plan provisions of EGTRRA.

AB 1744 requires CalSTRS to allow members of the DB Program that retire between January 1, 2002 and 120 days after the Governor signs the bill, to purchase service credit or redeposit previously withdrawn contributions using rollover funds allowed under EGTRRA, if their service credit purchase is completed by January 1, 2003. This provision allows members that plan to retire in 2002 to purchase service credit with 457 or 403(b) rollover funds without having to wait to retire until after state tax conformity is achieved. In order to further reduce the impact of the state's delay in conforming to federal tax changes, staff recommends the bill be amended to permit a retirement system to freeze the accrual of interest from the date of retirement until 60 days of the enactment of the state tax conformity legislation.

FISCAL IMPACT

Benefit Program Costs – No significant costs to CalSTRS benefit programs

Administrative Costs – Minor and absorbable

RECOMMENDATION

Support, if amended to permit retirement systems to freeze the accrual of interest between a member's retirement date and 60 days after the enactment of the bill. Members rely on their CalSTRS retirement allowance and individual retirement savings to ensure their income security during retirement. EGTRRA encourages teachers and other school employees to save additional money for retirement through contributions to a 403(b) contribution plan, and makes it easier for them to purchase service credit to boost their pension benefits. The inability of members to take advantage of the EGTRRA provisions will have significant long-term consequences on their retirement savings.

Senate Bill 1315

Senator Sher (As introduced 1/24/02)

Position:

Support, if Amended (Staff recommendation)

Proponents:

California Public Interest Research Group (Sponsor)

Opponents:

Pending

SUMMARY

Senate Bill 1315 requires the California State Teachers' Retirement System (CalSTRS) and other specified state agencies to contract with a centralized purchasing agency that would buy prescription drugs using a single, statewide formulary, and provide them to contracting agencies at reduced cost.

HISTORY

SB 461 (Torlakson, 2002) requires CalSTRS to establish and administer a Catastrophic Prescription Drug Insurance (CPDI) Program to provide high deductible coverage for prescription drugs to eligible retired members of the Defined Benefit (DB) Program.

Chapter 874, Statutes of 2000 (AB 2383—Keeley), among other things, requires CalSTRS to report to the Legislature on a prescription drug program and a health benefits program for retired members, and authorized the California Public Employees' Retirement System to submit a proposal to administer a health benefits program for CalSTRS retirees and their dependents.

Chapter 1032, Statutes of 2000 (SB 1435—Johnston) requires CalSTRS to pay the Medicare Part A premiums for those eligible retired members of the DB Program effective July 1, 2001, including any penalties applicable to enrollment in Parts A or B by eligible members who enroll after age 65.

Chapter 740, Statutes of 1999 (SB 159—Johnston) requires CalSTRS to develop a program to provide health care benefits for members, beneficiaries, children, and dependent parents.

Chapter 968, Statutes of 1998 (SB 1528—Schiff) requires CalSTRS to conduct a study on the feasibility of providing a health care program, including vision and dental, to CalSTRS members, beneficiaries, children, and dependent parents.

CURRENT PRACTICE

The availability of health care benefits for retired CalSTRS members varies among the membership and has historically been provided by school district employers on a district-by-district basis. Some districts provide full health care benefits, paying 100 percent of the premiums for medical, dental and vision insurance to retired teachers and their dependents, while

other districts provide vested health insurance benefits to their retired employees, or offer benefits only until the age of 65. Still other districts do not provide any health care coverage to their retired employees.

CalSTRS does not currently provide health insurance, nor play any role in securing health care coverage for active or retired members of the DB Program other than through the Medicare Premium Payment (MPP) Program established pursuant to Chapter 1032, Statutes of 2000 (SB 1435—Johnston). Under the MPP Program, CalSTRS pays the Medicare Part A (hospitalization) premium for those members who retired prior to January 1, 2001, are not eligible for premium free Medicare Part A, and who have enrolled in Medicare Parts A and B. Under authority provided in the enabling legislation, the Teachers' Retirement Board (Board) extended the eligibility for the MPP Program to DB Program members who retire prior to January 1, 2006, if the DB Program member retires from a district that held a Medicare Division Election.

As a service to the retired member, CalSTRS deducts monthly health care premiums, including Medicare Part B (medical insurance) premiums, from retirement allowances at the member's request, and forwards the money to the appropriate provider. No other statewide health care benefit, such as prescription drugs, is provided to CalSTRS retirees.

Pursuant to Chapter 874, Statutes of 2000 (AB 2383—Keeley), CalSTRS reviewed catastrophic prescription drug insurance (CDPI) plans along with other possible health benefit programs designed to extend healthcare coverage to all retired members. Features of the CPDI plan recommended by the Board provide CalSTRS members who retire with a specified amount of credited service coverage after their total out-of-pocket prescription drug costs exceed a specified amount. Members would pay a co-payment up to a second specified amount. The plan is not a first-dollar plan, but would be a basic safety net for the protection of DB Program members against catastrophic prescription drug costs.

SB 461 (Torlakson) requires CalSTRS to establish a CDPI program with features substantially similar to those recommended by the Board in its previous report to the Legislature.

DISCUSSION

Senate Bill 1315:

- Requires the Governor to designate an existing state agency as a central purchasing agency to buy pharmaceuticals and execute prescription drug purchasing agreements with CalSTRS and other specified state agencies that purchase pharmaceuticals.
- Permits state agencies that are required to contract with the central purchasing to opt out of the program if they can buy pharmaceuticals at lower cost. Agencies that are not listed as participants in the program may elect to participate.
- Requires the central purchasing agency to establish a single drug formulary and utilize existing distribution methods. In addition, it requires the agency to contract with a Pharmaceutical Benefits Manager (PBM).

- Allows the central purchasing agency to provide discount prices or rebate programs for seniors and persons without prescription drug insurance. Allows hospitals to participate in the bulk purchasing program.
- Authorizes the central purchasing agency to study the feasibility and appropriateness of allowing private sector purchasers to contract with the agency and establishing voluntary private buying clubs, cooperatives, or purchasing alliances comprised of small business or individuals for the purpose of purchasing prescription drugs at optimal prices.
- Requires the Department of Finance to approve a contract between the central purchasing agency with the PBM. Authorizes the Attorney General to investigate the pricing policies and practices of pharmaceutical manufacturers.

According to the sponsor, the California Public Interest Research Group (CALPIRG), the increase in the cost of prescription drugs outpaces any other component of health care and continues to rise. CALPIRG believes the state is not doing all it can to lower its pharmaceutical costs and estimates that by establishing a statewide prescription drug buying pool as proposed by SB 1315, the state can save approximately \$100 million annually.

CalSTRS does not purchase pharmaceuticals for its members, and the Board has not recommended offering prescription drugs directly to CalSTRS members in its previous health benefit studies. In contrast, other agencies specified in the bill, such as the Department of Corrections and the Department of Mental Health, are large purchasers of prescription drugs.

SB 1315 requires participating agencies to use a common drug formulary. This requirement would conflict with the CDPI Program proposed by SB 461 and restrict alternative plans CalSTRS may offer its retired members since they are covered under a variety of health insurance plans with varying prescription drug benefits, each with its own drug formulary. SB 461 requires a CalSTRS CDPI Program to be coordinated with each retired DB Program member's medical insurance program, rather than be based on its own formulary.

Consequently, there is not clear that including CalSTRS in the list of required agency participants makes sense at this time. Because the bill authorizes a state agency not listed in the bill to opt into the central purchasing program, CalSTRS could elect to participate in the program if CalSTRS established a program that resulted in the system purchasing prescription drugs, and determined that participating in such a program was cost-effective.

Depending on the specific regulations established by the central purchasing agency, authorizing the creation of voluntary private buying clubs, cooperatives, and purchasing alliances may be an effective way to provide low cost pharmaceuticals to retired CalSTRS members that do not have prescription drug coverage.

FISCAL IMPACT

Benefit Program Costs – No impact on current benefit programs.

Administrative Costs – No impact on current administration.

RECOMMENDATION

Support, if amended to remove CalSTRS as a required participant in the prescription drug bulk-purchasing program. Because CalSTRS does not now and does not expect to purchase pharmaceuticals, requiring its participation could prove incompatible with potential prescription drug programs. Because agencies that are not specifically listed as required to participate in the program may elect to do so, it appears reasonable to ask that CalSTRS be stricken from the list of agencies that are required to participate. CalSTRS could then elect to participate if at any time in the future, it finds that it would be in the best interest of CalSTRS members and the administration of its health benefits programs to do so.

Senate Bill 1318

Senator Karnette (As introduced 1/24/02)

Position:

Support, if Amended (Staff recommendation)

Proponents:

UTLA (sponsor)

Opponents:

None known

SUMMARY

Senate Bill 1318 allows a California State Teachers' Retirement System (CalSTRS) employer to pay all or part of its credentialed employees' required member contributions to the Defined Benefit (DB) Program and the Defined Benefit Supplement (DBS) Program. This bill would take effect immediately as an urgency statute.

HISTORY

Chapter 236, Statutes of 1985 (SB 578—Dills) among other things, allows a state employer to “pick-up” all or a portion of the normal contributions required to be paid by a state employee member of the DB Program for the purpose of providing a tax-deferred benefit within the meaning of Section 414 (h)(2) of the Internal Revenue Code (IRC).

Chapter 1532, Statutes of 1985 (AB 1923—Elder) among other things, allows a school employer to “pick-up” all or a portion of the normal contributions required to be paid by an employee who is a member of the DB Program for the purpose of providing a tax-deferred benefit under the meaning of IRC Section 414 (h)(2).

CURRENT PRACTICE

Existing law prescribes fixed contribution rates for credentialed employees that are members of the DB Program, as well as for their employers. Currently, active members of the DB Program contribute an amount equal to 8 percent of their creditable compensation, while CalSTRS employers contribute 8.25 percent of creditable compensation. The member's contribution provides a portion of the funding for their DB Program and DBS Program benefits – three-quarters of the member's contribution is credited to his or her DB Program account, and one-quarter is credited to his or her individual DBS Program account. CalSTRS calculates a member's retirement benefit under the DB Program using (1) the member's credited service, (2) a factor based on the member's age at retirement and (3) the member's final compensation. The DBS Program provides supplemental benefits for members of the DB Program, where, upon retirement, death, disability or termination, the member receives the balance of credits in his or her DBS Program account, either in a lump sum or as a monthly annuity, in addition to his or her normal DB Program retirement allowance.

Existing law allows a CalSTRS employer to “pick-up” all or a portion of the contributions a member of the DB Program is required to pay, provided that those contributions are deducted from the creditable compensation of the member. This “pickup”, however, is only for the purpose of allowing members to defer, until after retirement, income taxes on that portion of their earnings attributable to the contribution.

DISCUSSION

Specifically, SB 1318:

- Allows a CalSTRS employer to elect to pay all or a portion of their credentialed employees’ member contributions to the CalSTRS DB and DBS Programs.
- Requires employer-paid member contributions be subject to collective bargaining and may not be applied by CalSTRS employers to their employees on an individual basis.
- Allows a CalSTRS employer to increase, reduce, or eliminate the member contributions they pay on behalf of their credentialed employees.
- Provides that the employer-paid contribution would be credited to the member’s account.

According to the author, SB 1318 would enable teachers to take home a larger paycheck without receiving an increase in salary. It would also provide employers the same option the California Public Employees’ Retirement System provides to employers of classified school employees.

Unlike the existing employer “pick up” of member contributions, which only effectively allows members to defer taxes on a portion of the income they earn until they begin to receive a retirement allowance, SB 1318 allows employers to pay all or a portion of the required member contributions in order to increase employees’ current take home pay. However, because the member is not paying state and federal income taxes on the amount attributable to those contributions, reducing the amount a member contributes will result in an increase in his or her income tax liability.

The author, in consultation with CalSTRS staff, proposes clarifying amendments to require employers to report member contributions they elect to pay on behalf of their credentialed employees to CalSTRS in the same manner they would if their employees had made the contributions themselves. For example, even if, as a result of this bill, an employer contributed 9.25 percent of a member’s earnings, and the member contributed 7 percent of earnings, the employer would report contributions to CalSTRS as if the employer contributed 8.25 percent of earnings and the member contributed 8 percent of earnings, as provided under current law. This would allow CalSTRS staff to properly credit members’ DB Program and DBS Program accounts without implementing any additional employer reporting requirements or increasing CalSTRS’ processing costs or workload. The proposed amendments would also require that employer paid member contributions not be considered creditable compensation under the Teachers’ Retirement Law (TRL).

FISCAL IMPACT

Benefit Program Costs – None

Administrative Costs – In its current form, there would be substantial costs to modify the corporate database to accept different rates of contributions from employers and members. If amended, there would be minor and absorbable costs associated with drafting and distributing an employer directive to CalSTRS employers, and answering members' questions relating to the bill.

RECOMMENDATION

Support, if amended to require employers to report member contributions they pay on behalf of their credentialed employees in the same way they would if the employees had made the contributions themselves, and that such employer paid member contributions not be considered creditable compensation under the TRL.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY – REGULAR BOARD
2001-2002 Regular Session – February 19, 2002

[illegible]

AB 1743 AUTHOR: Assembly Member John Campbell
 TITLE: State conformity to EGTRRA
 AMENDED: 1/29/02
 LOCATION: Assembly Revenue and Taxation
 BOARD POSITION: Support (Staff recommendation)

SUMMARY: Among other things, conforms California law to the retirement plan provisions of the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).

COSTS: Benefit program – None

Administrative – Minor and absorbable

P – None known

O – None known

AB 1744 AUTHOR: Assembly Member Corbett
 TITLE: State conformity to EGTRRA rollover and service credit provisions
 AMENDED: 1/31/02
 LOCATION: Assembly Revenue and Taxation
 BOARD POSITION: Support, if amended (Staff recommendation)

SUMMARY: Among other things, conforms California law to the retirement plan provisions of the federal Economic Growth and Tax Relief Reconciliation Act of 2001 with respect to rollovers and purchase of service credit. Also permits members who retired in 2002, but before enactment of this bill, to purchase service credit using rollover funds.

COSTS: Benefit program – None

Administrative – Minor and absorbable

P – None known

O – None known

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY – REGULAR BOARD
2001-2002 Regular Session – February 19, 2002

[illegible]

SB 191 AUTHOR: Senator Karnette
 TITLE: Defined Benefit Supplement (DBS) enhancement and health
 benefit account
 AMENDED: 3/13/01
 LOCATION: Held in Senate (No further action may be taken)
 BOARD POSITION: Support, if amended*

SUMMARY: Would have required CalSTRS to make annual contributions to members' DBS accounts until 7/1/11 based on their years of credited service. Requires CalSTRS to pay the Medicare Part B premiums of active and retired Defined Benefit (DB) Program members who are at least 55 years of age on 1/1/02. Requires CalSTRS to establish nominal accounts and credit each account with \$600 per year to pay healthcare insurance premiums for DB Program members who retired before 1/1/01.

COSTS: Benefit program – Total amortized cost of \$6,556 million over 30 years

Administrative – Implementation costs likely to exceed \$1 million

P – SSDA, UTLA
O – None known

SB 657 AUTHOR: Senator Scott
 TITLE: State conformity to EGTRRA
 AMENDED: 1/29/02
 LOCATION: Assembly Revenue and Taxation
 BOARD POSITION: Support*

SUMMARY: Among other things, conforms California law to the retirement plan provisions of the federal Economic Growth and Tax Relief Reconciliation Act of 2001.

COSTS: Benefit program – None

Administrative – Minor and absorbable

P – CalPERS, Cal-Tax, California Society of Enrolled Agents, Great West Life and Annuity Insurance Company, San Benito County, San Luis Obispo County, Santa Cruz County, Valley Center Municipal Water District
Q – None known

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY – REGULAR BOARD
2001-2002 Regular Session – February 19, 2002

[illegible]

SB 1020 AUTHOR: Senator Escutia
 TITLE: Middle school extended year
 AMENDED: 6/4/01
 LOCATION: Assembly Education
 BOARD POSITION: No Position*

SUMMARY: Offers state fiscal incentives to school districts with schools that increase the school year in grades seven and eight and either grade six or nine by 20 days, or other specified days and hours for year round schools.

COSTS: Benefit program – Amortized cost of \$1 billion over 30 years from increased final compensation

Administrative – Minor and absorbable

P – California League of Middle Schools, California Manufacturers and Technology Association, Long Beach Unified School District

0 – CTA, UTLA

SB 1256 AUTHOR: Senator Brulte
 TITLE: State conformity to EGTRRA
 LOCATION: Senate Revenue and Taxation
 BOARD POSITION: Support (Staff recommendation)

SUMMARY: Among other things, conforms California law to the retirement plan provisions of the Federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA)

COSTS: Benefit program – None

Administrative – Minor and absorbable

P – None known

0 – None known

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY – REGULAR BOARD
2001-2002 Regular Session – February 19, 2002

[illegible]

SB 1315 AUTHOR: Senator Sher
 TITLE: Centralized purchasing of prescription drugs
 LOCATION: Senate Health and Human Services
 BOARD POSITION: Support, if amended (Staff recommendation)

SUMMARY: Requires CalSTRS and other agencies to join a statewide pool to purchase prescription drugs at a reduced cost.

COSTS: Benefit program – No impact on current benefit program.

Administrative – No impact on current administration.

P – California Public Interest Research Group

0 – None known

SB 1318 AUTHOR: Senator Karnette
 TITLE: Employer payment of member contributions
 LOCATION: Senate PE&R
 BOARD POSITION: Support, if amended (Staff recommendation)

SUMMARY: Allows an employer to pay all or part of a member's contributions to the DB and DBS Programs.

COSTS: Benefit program – Minor and absorbable

Administrative – Implementation costs of up to \$50,000.

P – UTLA (Sponsor)

0 – None known

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
LEGISLATIVE SUMMARY – REGULAR BOARD
2001-2002 Regular Session – February 19, 2002

[illegible]

SCA 2 AUTHOR: Senator Burton
 TITLE: Legislative oversight over public pension support budgets
 LOCATION: Senate PE&R

SUMMARY: Requires that expenditures for personnel, operating expenses and equipment for CalSTRS and CalPERS be approved in the annual Budget Act beginning in 2003-04, and authorizes the Governor and Legislature to request an independent actuarial review of CalSTRS and CalPERS.

COSTS: Benefit program – None

 Administrative – Minor and absorbable

P – None known
O – None known

SJR 9 AUTHOR: Senator Costa
 TITLE: Foreign investments
 LOCATION: Senate B, C & IT
 BOARD POSITION: Support, if amended*

SUMMARY: Requests that the President and Congress identify and place on a federal list, investments in foreign countries and businesses that pose a threat to the national security interests of the U.S. and to encourage appropriate federal measures to deny these entities access to capital from the U.S.

COSTS: Benefit program – None

 Administrative – No direct fiscal impact

P – CalPERS
O – None known

[illegible]

P – None known
O – None known

LEGEND OF ABBREVIATIONS

P = PROPONENTS O = OPPONENTS

ABBREVIATION

ORGANIZATION

AARP	American Association of Retired Persons, State Legislative Committee
AALA	Associated Administrators of Los Angeles
ACCCA	Association of California Community College Administrators
ACSA	Association of California School Administrators
AFSCME	American Federation of State, County and Municipal Employees
AFT	American Federation of Teachers
AGENCY	State and Consumer Services Agency
A.R.E.	Association of Retirees for Equity
ART	Association of Retired Teachers
BOE	Board of Equalization
BOG	Board of Governors, California Community Colleges
Cal-Tax	California Taxpayers Association
CalPERS	California Public Employees' Retirement System
CALPIRG	California Public Interest Research Group
CalSTRS	California State Teachers' Retirement System
CASBO	California Association of School Business Officials
CCA	Community College Association
CCAE	California Council for Adult Education
CCC	California Community Colleges
CCD	Community College District
CCPOA	California Correctional Peace Officers Association
CDE	California Department of Education
CFA	California Faculty Association
CFT	California Federation of Teachers
CNEC	California Network of Educational Charters
CPCA	California Police Chiefs' Association
CPFFA	California Professional Firefighters Association
CRTA	California Retired Teachers Association
CSAC	California State Association of Counties
CSBA	California School Boards Association
CSEA	California School Employees Association
CSL	California Senior Legislature
CSU	California State University
CTA	California Teachers Association
DOE	Department of Education
DOF	Department of Finance
DGS	Department of General Services
DPA	Department of Personnel Administration

LEGEND OF ABBREVIATIONS

P = PROPONENTS O = OPPONENTS

ABBREVIATION

ORGANIZATION

EGTRRA	Economic Growth and Tax Relief Reconciliation Act of 2001
FACCC	Faculty Association of California Community Colleges
F.A.I.R.	Faculty Attempting to Improve Retirement
FCPHE	Faculty Coalition for Public Higher Education
FTB	Franchise Tax Board
LACCD	Los Angeles Community College District
LADSA	Los Angeles Deputy Sheriffs' Association
LAUSD	Los Angeles Unified School District
OCDE	Orange County Department of Education
PARS	Public Agency Retirement System
PERF	Public Employees Retirement Fund
PORAC	Peace Officers Research Association of California
RPEA	Retired Public Employees Association
SACRS	State Association of County Retirement Systems
SBMA	Supplemental Benefit Maintenance Account
SCSA	State and Consumer Services Agency
SDCOE	San Diego County Office of Education
SEIU	Service Employees International Union
SLC	State Lands Commission
SSC	School Services of California
SSDA	Small School Districts' Association
START	State Teachers' Automation Redesign Team
TRB	Teachers' Retirement Board
TRF	Teachers' Retirement Fund
TRL	Teachers' Retirement Law
UTLA	United Teachers of Los Angeles

STANDING COMMITTEES OF THE ASSEMBLY/SENATE

Assembly PER&SS	Assembly Public Employees, Retirement and Social Security Committee
Senate B, C&IT	Senate Banking, Commerce and International Trade Committee
Senate E, U & C	Senate Energy, Utilities and Communication Committee
Senate PE&R	Senate Public Employment and Retirement Committee